

## Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W

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FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC NIACT IMMEDIATE 5231

S E C R E T MOSCOW 14252

EXDIS

FROM ROBINSON

E.O. 11652: GDS

TAGS: ETRD, ENRG, UR, US

SUBJECT: GRAIN/OIL NEGOTIATIONS

REF: A. STATE 237177; B. STATE 238354

1. WE WILL PROCEED WITH GRAIN AGREEMENT NEGOTIATIONS IN ACCORDANCE WITH "DIRECTION OF THINKING" ON A TENTATIVE BASIS AS OUTLINED REFTEL B PARAS 1 AND 2.

2. WITH REGARD TO "DIRECTION OF THINKING" ON THE OIL LETTER OF INTENT, WE CONSIDER THE OBJECTIVE OF A PRICING FORMULA WITH 15 PERCENT DISCOUNT UNREALISTIC TO ACHIEVE, AT LEAST AT OUR NEGOTIATING LEVEL. THIS CONCLUSION IS BASED ON THE FOLLOWING:

A. IN PRIVATE CONVERSATIONS PATOLICHEV HAS ACCEPTED THE NEED TO MAKE THE AGREEMENT ATTRACTIVE TO THE USG OR PRIVATE COMPANIES, WHICH IMPLIES ACCEPTANCE OF A "DISCOUNT." HOWEVER, HE REPEATEDLY AND UNEQUIVOCALLY STATED THAT HE WILL NOT MAKE A COMMITMENT TO A "DISCOUNT." THIS POSITION WOULD BE THE SAME WHETHER SUCH DISCOUNT WERE TO BE COVERED IN THE AGREEMENT OR IN A SEPARATE SIDE LETTER.

B. OTHERS IN THE MINISTRY OF FOREIGN TRADE ARE EVEN MORE ADAMANT OVER THIS ISSUE AND HAVE INSISTED THAT THE LETTER

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OF INTENT STATE SPECIFICALLY THAT PRICES WOULD BE AT WORLD

MARKET LEVELS TO AVOID POLITICAL OPPOSITION BOTH INTERNALLY AND EXTERNALLY TO ANY FORMULATION WHICH HOLDS OUT THE POSSIBILITY OF BEING BELOW MARKET.

C. WE HAVE BEEN FIGHTING THIS BATTLE FROM THE BEGINNING AND, IN AN EFFORT TO ACHIEVE A SOLUTION TIMED TO CONCLUSION OF THE GRAIN AGREEMENT, WE FINALLY SUGGESTED THE FOLLOWING TEXT: "PRICES FOR CRUDE OIL AND PETROLEUM PRODUCTS WILL BE MUTUALLY AGREED AT LEVELS WHICH WILL ASSURE THE INTEREST OF THE UNITED STATES GOVERNMENT AND PRIVATE UNITED STATES COMPANIES IN PURCHASING THE PRESCRIBED QUANTITIES." THIS WAS PRECISELY AS AUTHORIZED FOR A FALL-BACK POSITION IN REFTEL A PARA 7.

D. FROM CONTINUING DISCUSSION WE NOW HAVE FROM THE SOVIETS A PROPOSAL WHICH APPROACHES THE FORMULATION IN PARA 2C AS FOLLOWS: PRICES FOR CRUDE OIL OR PETROLEUM PRODUCTS WILL BE MUTUALLY AGREED AT A LEVEL WHICH WILL ASSURE THE INTERESTS OF BOTH THE GOVERNMENT OF THE UNITED STATES AND THE GOVERNMENT OF THE USSR.

E. ALTHOUGH WE CAN MAKE A FURTHER EFFORT TO OBTAIN SOVIET ACCEPTANCE OF THE AUTHORIZED TEXT (PARA 2C), WE CONSIDER THIS HIGHLY UNLIKELY IN VIEW OF THE SOVIETS' INSISTENCE ON THE APPEARANCE OF BALANCE. ANY EFFORT TO GO BEYOND THAT NOW WOULD CREATE A MAJOR NEGOTIATING CRISIS HERE.

F. TO OBTAIN A COMMITMENT TO A SPECIFIC DISCOUNT WE MUST ALSO ESTABLISH THE BASE AGAINST WHICH SUCH DISCOUNT WOULD APPLY. THIS WOULD REQUIRE DAYS AND PERHAPS WEEKS OF DETAILED AND HIGHLY TECHNICAL NEGOTIATION. (THERE WAS NO REFERENCE TO THIS PROBLEM IN REFTEL B.)

G. THE SOVIETS FEEL THEY HAVE ALREADY PROVIDED US WITH A SIGNIFICANT ECONOMIC ADVANTAGE IN GRANTING AN OPTION TO PURCHASE OIL NOT SUBJECT TO POLITICAL INTERRUPTION. THE LINKAGE WITH GRAIN SALES GIVES FURTHER SUBSTANCE TO THIS VIEW.

H. FOR US TO PROPOSE A SPECIFIC DISCOUNT ON OIL PRICE AT THIS STAGE WOULD GENERATE A LACK OF CREDIBILITY IN OUR POSITION WHICH WOULD JEOPARDIZE THE ENTIRE GRAIN/OIL

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NEGOTIATION.

3. WE ASSUME NEW HARD LINE ON OIL PRICING INFLUENCED BY THE LATEST CIA CROP ESTIMATE. WE CONSIDER THIS UNSOUND BASIS FOR SUDDEN SHIFT AND HARDENING OF APPROACH AS SOVIET LOGISTICAL BOTTLENECKS PRECLUDE IMPORTS THIS YEAR ABOVE APPROXIMATELY 25 MILLION OF WHICH 15 TO 20 MILLION HAS ALREADY BEEN PURCHASED. THEREFORE, REGARDLESS OF THE SERIOUSNESS OF THE SOVIET CROP

DISASTER, THERE IS A LIMIT TO QUANTITY OF ADDITIONAL GRAIN WHICH CAN BE IMPORTED. THERE IS ALSO A PSYCHOLOGICAL FACTOR INVOLVED. PATOLICHEV CONSISTENTLY HAS SHOWN GREAT SENSITIVITY TO PRESSURES FROM OUR SIDE. FOR US TO INSIST AT THIS POINT ON OBTAINING SPECIFIC ACKNOWLEDGMENT OF DISCOUNT WOULD BE SEEN BY HIM AS A BLATANT EFFORT TO INCREASE OUR PRESSURE AND, I BELIEVE, WOULD BE REJECTED ON THAT BASIS ALONE.

4. IN VIEW OF THE DANGER IN SUDDENLY SHIFTING OUR NEGOTIATING POSITION ON OIL PRICING HERE, WE URGE THAT, IF AN EFFORT IS TO BE MADE TO ACHIEVE A SPECIFIC PRICE DISCOUNT ON OIL, THIS SHOULD BE MADE THROUGH OTHER HIGHER CHANNELS. HOWEVER, EVEN WITH THIS APPROACH, I STRESS THE RISK OF JEOPARDIZING BOTH OIL AND GRAIN AGREEMENTS FROM ANY ATTEMPT TO GET A SOVBIET COMMITMENT TO SELL OIL AT A "DISCOUNT" BELOW MARKET PRICING.

5. I HAVE MEETING AT 12 NOON MOSCOW TIME WITH PATOLICHEV AND AM PREPARED TO POSTPONE MY DEPARTURE. HOWEVER, IF EFFORT IS TO BE MADE TO OBTAIN A SPECIFIC OIL PRICE DISCOUNT, I SEE NO ALTERNATIVE BUT TO SUSPEND NEGOTIATIONS.

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## Message Attributes

**Automatic Decaptioning:** Z  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PETROLEUM, AGREEMENTS, NEGOTIATIONS, GRAINS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 07 OCT 1975  
**Decaption Date:** 28 MAY 2004  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** KelleyW0  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975MOSCOW14252  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
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**Office:** ACTION SS  
**Original Classification:** SECRET  
**Original Handling Restrictions:** EXDIS  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** SECRET  
**Previous Handling Restrictions:** EXDIS  
**Reference:** 75 STATE 237177, 75 STATE 238354  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** KelleyW0  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 11 JUN 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <11 JUN 2003 by ShawDG>; APPROVED <29 OCT 2003 by KelleyW0>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** GRAIN/OIL NEGOTIATIONS  
**TAGS:** ETRD, ENRG, EEW, UR, US  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006